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& Investments

The Newspaper of Corporate and Institutional Investing

\$9 An Issue \$135 A Year

AT DEADLINE

TSA put on probation

The Los Angeles County Employees' Retirement Association put TSA Capital Management on probation June 26 following the resignation of five senior vice presidents and amid concerns about the supervision of the firm's computer-based investment models. All five TSA executives left to join MPT Associates.

Improper action charged

George Anderson, formerly a cash manager at EDS, has filed a wrongful discharge suit in Texas District Court against EDS, alleging he was fired for refusing to follow orders involving improper investment practices with corporate and pension assets.

Among his charges, Mr. Anderson contends Douglas Crow, formerly managing director of benefit plan asset management, asked him to falsify interest projections for a pension account, make some investment transactions look bad and approve payment invoices for the fund trustees hadn't approved.

NCM buy-out completed

NCM Capital Management Group Inc. has completed a management-led buy-out with financial help from IDS Advisory Group, according to Maceo Sloan, NCM chief investment officer.

For an undisclosed amount, IDS obtained a 40% stake in the Sloan Financial Group Inc., the new parent of NCM Capital Management.

Mr. Sloan and 12 other senior executives will own the remaining 60%.

Raytheon adopts proposal

Raytheon has agreed to secure
Continued on page 39

INSIDE



More rain predicted

Many plan sponsors in the private pension system are seeking shelter from the buckets of regulations poured on them, including the Labor Department's intention to toughen enforcement. In Commentary, Page 14.

Politicians grabbing pension assets

By Hillary Durgin

Politicians want to overhaul the structures and funding mechanisms of public pension funds to address record-breaking deficits.

But the initiatives are just as much political maneuvers by elected officials to consolidate power as last-ditch financing strategies, pension fund executives and consultants say.

Politicians counter that current budget shortfalls entitle them to review retirement funding, particularly when some pension funds are accumulating excessive assets.

Solving the shortfalls by reducing or eliminating pension contributions is not new. But the structural changes under consideration

Power and budget woes are at issue

raise issues of fiduciary responsibility and benefit security that are likely to transform the way public funds operate.

Using pension assets for purposes other than providing benefits may become acceptable, but pension executives will face increasing difficulties in evaluating whether they meet their investment objectives and still fulfill their fiduciary duties, said Carol W. Proffer, managing director of William M. Mercer Inc., Dallas.

"It's going to change the direction of the use of control of pension funds in the public sector," she said. "The focus of the dollars is going to be broader."

And pension fund trustees might try to stop state politicians from continuing to tap their funds to finance state government.

Already in California and Illinois, lawsuits are being contemplated, and momentum is once again gathering behind some sort of federal legislation to protect public pension assets.

Among the states and municipalities now debating or implementing changes:

• The Texas comptroller has proposed establishing a state pension fund committee composed of the governor, lieutenant governor and comptroller to oversee funding issues now handled by indi-

vidual state pension fund boards.

The proposal would increase state authority over contribution rates and funding periods, permitting the state to raise \$156 million from the state's two largest funds — The Teacher Retirement System of Texas and Employees Retirement System of Texas — over the next two years but potentially jeopardizing benefits for retired teachers. Another measure would allow the state to set retirement systems' budgets.

• The Illinois Legislature is considering proposals to increase early retirement incentives and enrich pension benefits that officials at the \$4.3 billion Illinois State Universities Retirement System say the fund cannot afford to pay.

See Deficits on page 39

3 funds try to block Time Warner issue

By Barry B. Burr

Three public pension funds sued Time Warner Inc. to block its stock rights offering and recover more than \$10.1 million in losses they've sustained in the market so far by the fall in the price of their holdings as a result of the proposal.

An attorney for the three funds — the \$22 billion Florida State Board of Administration, the \$2.2 billion Louisiana State Employees' Retirement System and the \$3.5 billion Teachers' Retirement System of Louisiana — said fund officials are willing to negotiate a compromise and support a stock rights offering in a different form by Time Warner.

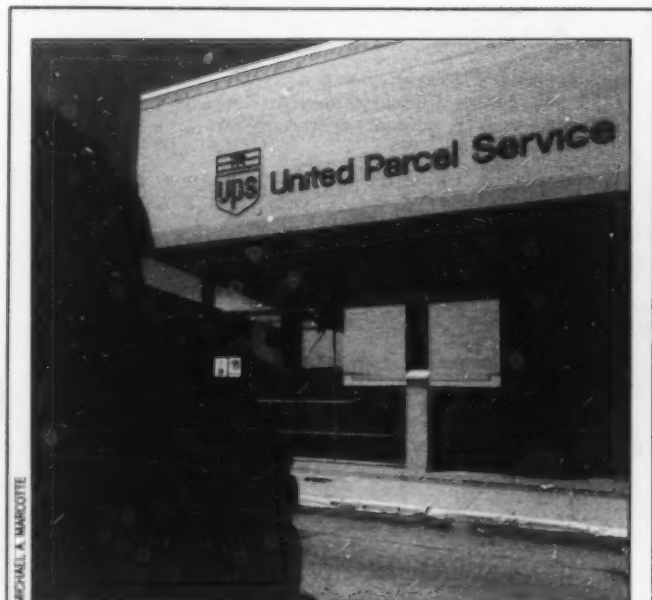
The funds filed the 26-page complaint in Chancery Court, Dover, Del., against Time Warner

and its 25 directors.

The California Public Employees' Retirement System, in a separate move, hired Providence Capital Inc., New York, to evaluate the proposal. I. Walton Bader, partner with Bader & Bader, White Plains, N.Y., and attorney for the three litigating pension funds, said the California fund has been in contact with the other funds and won't decide whether to join the suit until it reviews Providence's findings.

Nevertheless, Mr. Bader predicted, "You're going to get a substantial number of pension funds joining this case. A number have called and asked for copies of the complaint." He declined to name the others.

Providence, meantime, has been soliciting major pension funds to advise them on the Time Warner
See Suit on page 37



Teamsters members such as United Parcel Service employees are being forced to think about pension issues such as full funding vs. benefit increases in the campaign to elect a union president. Page 33.

Ego leads to Dennis Walton's downfall

By Joel Chernoff

POMPANO BEACH, Fla. — Six years after winning a landmark court victory boosting union efforts to invest their pension funds in job-creating investments, Dennis Walton's real estate empire is in ruins.

The Department of Labor — which had lost the 1985 court decision and a subsequent appeal — on Feb. 1 forced the brash and outspoken Mr. Walton to step down as chairman of Operating Engineers Local 675's pension and health funds, both of which are nearly insolvent. And, on June 7, a court wrested control of benefit payments away from the remaining trustees after Mr. Walton

disregarded the directions of the plan's court-appointed named fiduciary and mailed unreduced benefit checks for June to retirees.

Mr. Walton, a former merchant marine and policeman who turned job-creating pension fund investments into a personal crusade, now is on the defensive. The Labor Department is suing him and the other trustees for investing 95% of the pension fund's assets in local real estate ventures that have soured.

Retiree benefits will have to be cut in half, and the named fiduciary likely will ask the Pension Benefit Guaranty Corp. to take over the plan next year. Meanwhile, Mr. Walton faces a tough election in August as business manager of the union local.

At stake is the legacy Mr. Walton created through his fund's real estate investments and legal precedents. By using his court victory as a moral club, he lambasted the Labor Department and chastised trustees reluctant to commit to real estate. Through speeches that effused charm, wit and bluster, he personally ignited the enthusiasm of dozens of Taft-Hartley plan trustees across the country to put their pension assets to work for their members.

The damage on the South Florida union local's pension and health plans appears to be devastating. Jere Brassell, president of Southern Benefit Administrators Inc., Goodlettsville, Tenn., who became the plans' named fiduciary under a court order, said the

pension fund now is worth less than \$5 million — and "very possibly" nothing — down from \$63.7 million at the end of 1987.

A consultant to the plan for 15 years, Mr. Brassell now is viewed by Mr. Walton as a "direct tool of the Department of Labor."

Nowhere is there a suggestion that Mr. Walton used the pension fund for personal gain. Instead, critics repeatedly cite Mr. Walton's ego as the factor that brought the funds down.

Mr. Walton blames most of the fund's problems on the U.S. government: Congress artificially inflated real estate values by enacting various tax benefits in 1981, only to take them away in 1986; the government's actions forced
See Union turmoil on page 34

NEWS DIGEST

Pensions

9 to leave Wilshire co-op

New group gives consultants larger data base, control

By Curtis Vosti

The Wilshire Associates Cooperative was dealt a savage blow last week when nine of its members — with at least 75%, and some say nearly 90%, of the portfolios in its data base — announced they are leaving by the end of the year.

The nine formed a new co-op, called Independent Consultants Cooperative. They have joined forces with Bankers Trust Co., New York, which will provide the back-office numbers-crunching for the performance data base of the consultants' pension fund clients.

Members of the new co-op say they are forming their own organization to access a larger data base, nearly 3,000 portfolios with Bankers Trust (1,500 from the pension clients of the consultants and 1,500 from Bankers Trust's

pension clients) as opposed to 2,000 with Wilshire; get better analytic services, especially in the fixed-income and international areas; and exercise more control over the co-op's activities and membership.

Most members say they will continue to contract with Wilshire for other services, such as investment management performance data base and asset allocation services.

"The primary difference is this cooperative, instead of being funded and controlled by (Wilshire), is being controlled and operated by the (consulting) firms," said Michael Shone, president of Peirce Park Group, Wilmington, Del.

Other consulting firms leaving Wilshire to join the new co-op are: Becker, Burke Associates, Chicago; R.V. Kuhns & Associates, Portland, Ore.; New England Pension Consultants Inc., Boston;

Jeffrey Slocum & Associates, Edina, Minn.; Wurts, Johnson & Co., Seattle; Highland Associates, Birmingham, Ala.; Asset Consulting Group Inc., St. Louis; and Gerber/Taylor Associates Inc., Memphis.

Madison Portfolio Consultants Inc., New York, will belong to both data bases, according to Alan Weisenberg, president of Madison.

Before the split, the Wilshire co-op reportedly had 26 members representing pension funds with assets of more than \$125 billion.

Wilshire officials are disappointed with the planned departures, but contend the exodus will not cripple their operations.

"We still have more people who are remaining than who are going," said Gil Hartmer, senior vice president and principal. "The Wilshire Co-op will remain."

Mr. Hammer said Wilshire "has
See Co-op on page 35

Congress gets three simplification bills

By Fred Williams

WASHINGTON — Following years of tax law changes that have confused pension executives and compounded plan administration, three pension simplification bills have been introduced in Congress — increasing the odds such a bill will be passed this year.

Sponsors of each of the bills — Rep. Rod Chandler, R-Wash.; Rep. Dan Rostenkowski, D-Ill.; and Sens. David Pryor, D-Ark. and Lloyd Bentsen, D-Texas — claim their measures simplify pension administration and make pension plans more accessible to small business.

The simplification measures address most of the same issues, such as non-discrimination rules, distribution and rollover rules, plan availability and definitions of highly compensated employees.

The Bush administration favors pension law simplification and Secretary of Labor Lynn Martin has proposed measures similar to some of the congressional efforts as part of her portability recommendation.

Highlights of the proposals:

- Each would expand the availability of salary reduction simplified employee pension plans to employers with up to 100 employees (from up to 25 now).

- Each would repeal the five-year averaging rules that provide favorable tax treatment to lump-sum distributions. They differ, however, over the issue of net unrealized appreciation rules regarding employer securities.

- The Chandler and Pryor/Bentsen bills would remove non-discrimination testing for plans that fit within certain "safe harbor" provisions while the Rostenkowski bill would retain testing but expand the area within which an employer's plan would be considered non-discriminatory. The Rostenkowski bill would allow companies to use data regarding highly paid employees from the preceding year. In order to be non-discriminatory, plans would

have to show the actual deferral percentage of highly compensated employees for the plan year does not exceed 200% of the average deferral percentage of non-highly paid employees from the preceding year.

- The measures would define more clearly highly compensated employees.

- In what some benefits specialists consider a sleeper issue, the Rostenkowski bill would change the normal retirement age to coincide with the rise in Social Security retirement age to 67 for employees born after 1953 from the current retirement age of 65.

The rise in retirement age would help employers coordinate retirement plans with Social Security, said Larry Sher, partner with Kwasha Lipton, Fort Lee, N.J. Current Internal Revenue Service rules will not allow the use of normal retirement age after 65, he said, restricting how plans are designed in order to satisfy non-discrimination and Social Security integration rules.

"It will be really useful to some
See Congress on page 34

Edward V. Regan, New York state comptroller and sole trustee of the \$43.7 billion State & Local Retirement Systems, spoke at P&I's investment management conference. See page 4.

SPECIAL REPORT: FASTEST GROWING MANAGERS

NCM Capital Management is No. 1 in growth for assets under management, a P&I survey shows. Page 17.

FINANCING

Three public pension funds sue Time Warner Inc. to block its stock rights offering. Page 1.

INTERNATIONAL

Batterymarch picks two companies for the first investments for its Soviet Companies Fund. Page 3.

REAL ESTATE

Two pension consulting firms are planning to form a secondary market for commingled real estate funds to help frustrated pension executives. Page 3.

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Software questionnaires in the mail

Questionnaires for Pensions & Investments' survey of investment management software were mailed July 1. Portfolio management and asset allocation software as well as database services for use in the investment management of pension portfolios will be covered. Only specialty application software will be included; no generic or utility programs will be profiled. Completed forms must be returned by Aug. 1 to be included in the Sept. 2 special report. If you have not received a questionnaire, or if you have any questions, contact Christine Philip at (312) 649-5217.



Charles Wurtzbaach will direct investment research for JMB Institutional.

JMB nabs Pru exec, shifts staff

By Steve Hemmerick

JMB Institutional Realty Corp., Chicago, has hired MPT expert Charles H. Wurtzbaach from Prudential Realty Group and folded a JMB affiliate's 30-person research staff into JMB Institutional.

The changes will give JMB executives greater ability to advise clients on real estate investments at a time when many pension executives and trustees are criticizing their real estate advisers for acting more like brokers than advisers. JMB has invested in more than \$10 billion of real estate for tax-exempt clients.

Jerome J. Claeys III, chairman of JMB Institutional Realty, said the beefed-up research effort will allow JMB to provide advice not solely for a single transaction but consistent with the goals of a client's overall portfolio.

"This reorganization and expansion will add depth and further enhance our research and portfolio management capabilities. We will be able to provide far more tailored and in-depth advisory services for our clients," Mr. Claeys said.

See JMB on page 36



Rep. Rod Chandler is one sponsor of a pension simplification bill.

INSURERS

Bad mortgages riding the crest of poor realty market

■ The sluggish real estate market has caused a 70% surge in non-performing residential and commercial mortgages held by insurance companies, a recent survey reports.

Weiss Research Inc., West Palm Beach, Fla., reports that its survey of 1,180 insurance companies, representing 93% of the industry's total assets, revealed that non-performing mortgages — those that are 90 days past due, in the process of being foreclosed or foreclosed during the year — jumped to \$11.4 billion at the beginning of 1991, compared with \$6.7 billion a year earlier.

The survey report notes that 13 life and health insurers with \$2 billion or more in assets have a ratio of 45% or more of non-performing assets to capital and surplus. Trailing the pack is the life insurance unit of Travelers Insurance Co., Hartford, Conn., with a 95.5% ratio.

"The surge in non-performing mortgages is due to a real-world increase in default rate, unlike the sudden increase in reported junk-bond holdings, which was due primarily to a change in the (National Association of Insurance Commissioners') reporting procedures," said Martin D. Weiss, president.

"Although the total dollars cur-

Insurers' woes grow		
Non-performing mortgages are an escalating problem for many insurance companies. The insurers listed have more than \$2 billion in admitted assets. A ratio of 45% or more of non-performing assets to capital and surplus.		
Travelers (Conn.)	53.8%	95.5%
UNUM Life (Maine)	13.3	56.6
Equitable Life (N.Y.)	40.7	55.4
Phoenix Mutual (Conn.)	37.8	54.6
TIAA (N.Y.)	41.9	50.0
Mutual Life/New York (N.Y.)	35.4	47.9
State Mutual Life (Mass.)	25.8	46.0

rently in non-performing mortgages are less than the amount in junk bonds, other borderline

mortgages could default if the economy remains weak," Mr. Weiss said.

PEOPLE

Melamed wins human rights award

■ Leo Melamed sees the futures markets as a bastion of equal opportunity — so it's logical that he has spent much time and energy promoting such fairness in other aspects of society.

For this work, Mr. Melamed, chairman emeritus of the Chicago Mercantile Exchange, has been named 1991's recipient of the American Jewish Committee's Human Rights Medallion. The award was presented June 17, at a dinner with Sen. Daniel Inouye as principal speaker.

"It's a great honor, of course," Mr. Melamed said. "The American Jewish Committee has been in the forefront of human rights in this country for more than 80 years." The committee runs numerous programs aimed at fostering

greater understanding among various religious, racial and ethnic groups.

In addition to his long-time position as a leader of the Mercantile Exchange, Mr. Melamed has found time to promote Jewish cultural affairs. He has participated in Yiddish theater and has recited Yiddish poetry for a variety of Chicago audiences.

Mr. Melamed — who fled Nazi-occupied Poland for the U.S. with his parents in 1941 — sees a link between his work in the futures markets and his work for human rights.

"Markets themselves have no ethnic, religious or gender biases; they reward on merit," he said. In that, he said, they can be a model for the rest of society.



MICHAEL A. MARCOTTE

Leo Melamed is the 1991 recipient of the American Jewish Committee's Human Rights Medallion.

INTERNATIONAL

Canadian fund foreign holdings beat '90 market

■ International holdings of Canadian pension funds outperformed the market in 1990, according to The World Markets Co., New York.

Canadian funds' international portfolios had a weighted average return of -10.6% for the year, compared with -22.8% for the Morgan Stanley Capital International Europe Australia Far East Index.

Low exposure to Japan helped the funds' performance, especially in the first and third quarters. High weightings in German equities also were beneficial, as was a relatively high level of liquid assets. Stock selection within markets helped the funds beat the local indexes in most countries, with the most pronounced outperformance in Japan, Germany and Sweden.

World Markets' comparative analysis of Canadian investors' international portfolios is part of its new IMPACT Canada service. The service has begun with a universe of 13 EAFE-mandate portfolios with assets of more than \$860 million.

The company plans to add global and world-minus-Canada portfolios when enough are available.

Quarter-by-quarter performance in 1990 was: first quarter, Canada EAFE universe -5.9%, EAFE index -18.8%; second quarter, 9.4%, 9.1%; third quarter, -18.8%, -21.7%; fourth quarter, 7%, 11.2%.

Canadian pension funds can invest up to 10% of their assets internationally; under recently proposed legislation, the limit would be increased to 20% within five years.

REAL ESTATE

Trophy investments ahead of pack

■ Trophy and core real estate investments are both considered conservative investments for pension funds, but trophy investments sharply outperformed core property investments during the 12 months ended March 31.

According to SEI Capital Resources, Wayne, Pa., trophy properties returned 1%, while core investments returned -1.3%.

Investors choosing trophy-style real estate would buy existing, well-leased commercial property, including downtown office buildings and regional malls. Core-style investing would seek well-leased commercial suburban office buildings, neighborhood or community shopping centers and warehouses.

Opportunity-style real estate investment, meanwhile, outperformed both trophy and core, returning 1.4% for the year.

Opportunity properties would be highly leveraged or have high vacancies and, therefore, higher risk.



Trophy real estate did much better than core holdings for the year ended March 31.

INVESTING

Drug, computer stocks top picks

■ Institutional investors most heavily purchased drug stocks and sold broadcast media stocks in the first quarter, according to Spectrum, CDA Investment Technologies' report on institutional activity.

The institutions were net purchasers of \$2.3 billion of drug stocks, and net sellers of \$1.2 billion of broadcast media equities.

Other favorite purchases were computer systems (\$1.9 billion)

and computer software (\$1.7 billion). Other least-favored industries were electric power (net sales of \$472.7 million) and oil well equipment and services (net sales of \$374.6 million).

The most purchased stock was IBM Corp. at \$1.1 billion, followed by \$1.04 billion of Pfizer Inc. and \$871 million of MBNA Corp.

The heaviest net sales were CBS Inc., net sales of \$1.4 billion; Schering-Plough Corp., \$473 million; and GTE Corp., \$467 million.



VENTURE CAPITAL

Schroder closes U.K. partnership

■ Schroder Ventures Inc., New York, has closed the third and final partnership of its Schroder UK Venture Fund, bringing the funds' total assets to \$133 million.

More than 50% of the assets committed to all three partnerships came from U.S. investors, including corporate and public pension funds and endowments, with the balance from U.K. and

Dutch institutions and high-net-worth individuals. Officials declined to name investors.

In addition to the U.K. fund, the firm so far has raised \$35 million of a targeted \$50 million for a Spanish buy-out fund. It also has begun marketing a second buy-out fund for Canada called Schroder Canadian Buy-Out Fund II. The first fund closed in 1987.

INTERNATIONAL

Mexican pension funds place No. 1 in Wyatt survey

■ For the second year in a row, Mexico's pension funds and seniority plans outperformed 11 other countries' funds, according to a report by The Wyatt Co.

Last year, in local currency terms, Mexico's 104 funds included in the survey — with aggregate assets of \$791 million — posted a 44.8% median return. That compared with a 64% return for 1989 by 97 funds representing \$361 million. The 104 funds in the 1990 survey represented about 20% of total Mexican pension funds and seniority plan assets, which are lump sum payments made to employees with at least 10 years of service after they leave their jobs.

The Philippines' pension funds ranked second in the Wyatt study. For 1990, 150 retirement funds, with about \$156 million in aggregate assets, posted a 12.5% gain.

U.K. funds brought up the rear with a -12.6% return for balanced funds. In the United Kingdom, Wyatt surveys 450 pooled funds that represent "substantially all of the funds available to tax-exempt institutional investors in the U.K.," the report said.

Other countries' funds posted generally mediocre to down results last year. Japanese trust



The pension funds of Mexico, land of the Mayan ruins at Chichen Itza, outperformed funds of 11 other countries.

banks, for the year ended March 31, 1990, posted a 0.5% gain. The report, "Global Perspective," said the majority of retirement fund assets in Japan are managed by 17 trust banks and 21 life insurers.

In Australia, balanced accounts of 37 pooled funds surveyed, with

aggregate assets of \$10 billion (U.S.), gained 0.4% in 1990.

In Canada, 253 balanced pooled accounts showed a median 0.4% decline, while in New Zealand, the median return for 107 retirement funds — with total assets of about \$2.4 billion U.S. — was -2%.

PEOPLE

Firm aims for global fixed income

■ William L. Nemerever, formerly executive vice president in Fidelity Management Trust Co.'s fixed-income group, plans to take Boston International Advisors Inc. into the world of global fixed income.

He joined Boston International May 20 as managing director. A six-year Fidelity Trust veteran, he said he wanted to go beyond domestic strategies to global and to work with an entrepreneurial firm where he could be an owner and manager.

At Boston International, which to date has managed international equities exclusively, he will rejoin Lyle Davis, with whom he worked at State Street Bank & Trust Co. before Fidelity Trust.

Mr. Davis was senior vice president and chief investment officer at State Street before starting Boston International, where he is president and managing director, in 1986.

Mr. Nemerever was vice president and head of fixed income at State Street.

INVESTING

Fannie Mae offers Japanese Pooltalk

■ As Japanese investors increasingly warm to U.S. mortgage-backed securities, the Federal National Mortgage Association, Washington, is trying to turn up the heat further.

Fannie Mae is offering a Japanese version of Pooltalk, a telephone service in which investors can call 24 hours a day for trading information on Fannie Mae mortgage-backed securities.

Last year, Japan's purchases of U.S. mortgage-backed securities quadrupled to about \$25 billion, of which about \$15 billion was in Fannie Maes, according to officials.

FINANCING

Mezzanine fund seeks investors

■ Hicks, Muse & Co., a New York investment bank, is in the early stages of raising a mezzanine fund targeted at pension funds and life insurance companies, according to Charles Tate, managing director and partner.

Mezzanine capital is scarcer than ever with the credit crunch and the demise of the junk bond market, increasing returns to mezzanine lenders.

"The yields on mezzanine assets if a transaction works are in the low to mid-20s. They're fairly illiquid, somewhat long-lived investments," he said.

The fund would be positioned to take advantage of what Mr. Tate predicts will be an increase in leveraged buy-out activity.

With real estate's dismal returns and the contraction of the junk bond market, the mezzanine fund would represent one of few high-yielding investments in an environment of relatively stable interest rates, he added.

SOCIAL CRITERIA

Maquiladora guidelines proposed

■ Along with South Africa and Northern Ireland, a set of social investing guidelines has been unveiled governing corporate work practices in Mexico.

The guidelines, The Maquiladora Standards of Performance, will be submitted to corporations informally and through shareholder proposals.

The new code is compiled by The Interfaith Center on Corporate Responsibility and religious, labor, Latino and women's organizations.

The guidelines are aimed at companies that operate subsidiaries, have affiliates or conduct

operations directly in Mexico.

"The goal is to promote work practices that protect the environment, create a safe work environment and provide an adequate standard of living for 'maquiladora,' (literally, sewing machine) employees," according to Institutional Shareholder Services Inc., Washington.

This year, shareholder proposals concerning Mexican operations were filed at 12 companies, according to the ISS. Ten were withdrawn after management agreed to either report on its operations or allow inspection of facilities by coalition members.

REAL ESTATE

Income boosts apartment returns

■ Investments in apartments for pension funds and other tax-exempt investors outperformed investments in other major property types for the first quarter of 1991.

Apartments scored a first-quarter total return of 1.4% in the Russell-NCREIF Property Index. The index, which tracks the performance of 1,506 properties with a total tax-exempt investment of \$22.2 billion, reported the total return for all property types for the quarter was -0.2%.

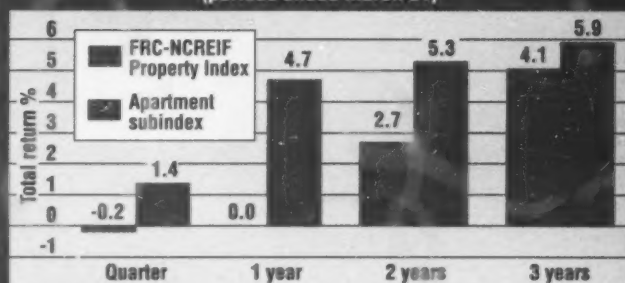
Total returns for individual property types in the index for the first quarter were: office, -0.9%; retail, 0.6%; research and development/office, -1.8%; and warehouse, 0.5%.

The higher return for apartments came all from income be-

cause, as a category, apartments actually fell in value by 0.4% in the first quarter.

Some of the reasons for past and probably future strong returns from apartments include the curtailment of apartment building with federal tax law revisions, the aging of residential housing stock, increased formation of households and high single-family home prices and interest rates, according to Lewis Heuberg, vice president with MIG Cos., a West Palm Beach, Fla., real estate firm.

For the year ended March 31, apartments had a total return of 4.7%, while the overall index for the year was flat at zero. It is the third quarter in a row apartments led all other property types.

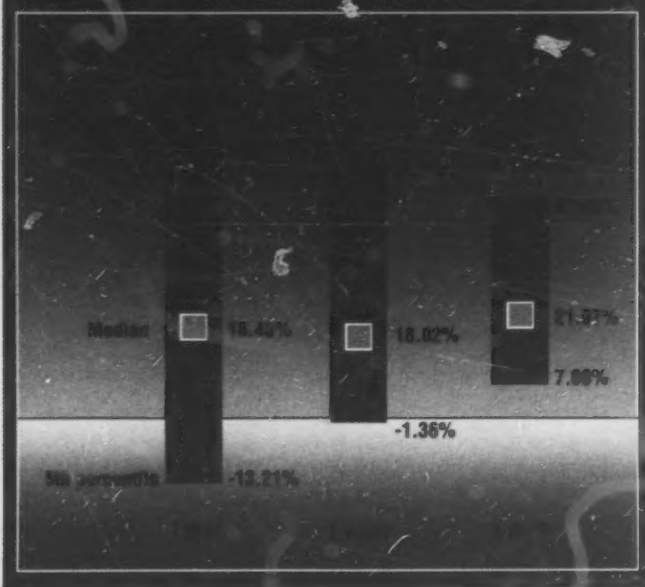
Apartment subindex performance summary
(periods ended March 31)

Source: Frank Russell Co. and National Council of Real Estate Investment Fiduciaries, both in Tacoma, Wash.

Tremont universe of limited partnerships

Returns for periods more than one year are annualized. All returns are before management expenses and performance fees.

(Periods ended March 31)



WASHINGTON

PBGC puts new players in lineup

■ The Pension Benefit Guaranty Corp. has restructured its front office to more closely resemble that of a private company.

The newest addition to the team is James L. Wolbarsht, who has joined the PBGC as its chief financial officer and one of three deputy executive directors.

Mr. Wolbarsht most recently was president of DEFCON Inc., a market research firm based in Arlington, Va. He also has consulted for various government agencies and has served as staff director for the President's Commission on Industrial Competitiveness between 1983 and 1985.

At the PBGC, Mr. Wolbarsht will be responsible for financial policy and budget operations, in-

vestment management, premium operations, procurement and information resources management. One of his major tasks will be to direct the development of an integrated accounting and financial management system.

PBGC veteran William M. DeHarde was named deputy executive director and chief operating officer for the agency. He will have responsibility for the agency's daily operations. He oversees and directs the agency's insurance operations, human resources, management planning and support services.

Previously, Mr. DeHarde was director of the PBGC's insurance operations department for 12 years.

COMMENTARY

More regulations bring more cost, less rule

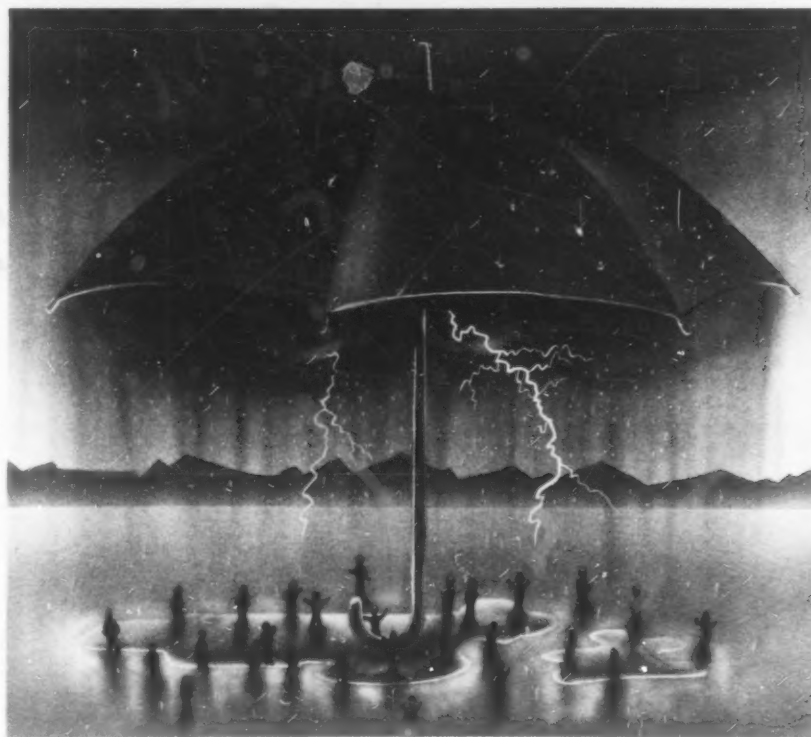
By David Langer

Legislation the Department of Labor is expected to re-propose later this year to toughen enforcement of private pension plans undoubtedly will again leave out a noteworthy offender. The three main sections of the proposal target private sponsors by calling for strengthening plan audits, incentives for private enforcement and disincentives for unlawful behavior. But what of the abuses of the government itself? The evidence of its acts harmful to pensions is powerful, and it ought to be the primary target.

No one, of course, questions that fraud and fiduciary breach occur among a number of the some 800,000 qualified pension plans. How could it be otherwise with a couple of trillion dollars scattered among so many plans? There are participants and beneficiaries who are being deprived of their rightful benefits, and there are corrupt fiduciaries who leave plan participants painfully shortchanged, as recent congressional testimony vividly described.

Should further action be taken to punish and to try to prevent such violations? Absolutely, but it should be carefully aimed at problem areas and avoid casting a sweeping net that would embroil sponsors in yet another round of law and regulation that will, if the past is a guide, fall with a heavy hand on all plans regardless of likelihood of culpability. Recognition is needed beforehand that plans covering most participants are being run in a decent, law-abid-

David Langer is a consulting actuary and the president of David Langer Co. Inc., New York.



TED FUKA

ing manner.

But the Labor Department and the House Ways and Means Committee's Subcommittee on Oversight have focused only on causes of financial injuries to participants of a limited number of individual plans. They fail to see the problems caused by the

colossal failures of the executive and legislative branches that adversely affect all 800,000 plans and their participants and are driving away or otherwise discouraging plan sponsorship. Such problems include:

- The rapidly escalating and mind-boggling complexity of pension laws and reg-

ulations issued since the Tax Equity and Fiscal Responsibility Act of 1982.

- The out-of-control budget deficit, which has caused the government to invade the private pension system for funds by cutting back on permissible defined benefit plan contribution levels (thereby impairing plan solvency) and by adding a host of annoying excise taxes.

- The Pension Benefit Guaranty Corp.'s shaky actuarial foundation, creating a worrisome tontine in reverse, where premiums instead of benefits have been rising rapidly for the surviving defined benefit plan sponsors.

It is fair to conclude that the unsound management of government creates far more extensive damage to pension expectations than the isolated instances of illegal behavior of individual fiduciaries. It certainly does not matter to a retired person that the loss of reduction of a pension came about because of plan fiduciaries' abuses or by mismanagement and corruption at the government level.

The Labor Department would do well to take a close look at the behavior of its brethren-in-government before heaping another truckload of laws and regulations on plan sponsors, thereby motivating more to shun plans. It also could promote the concept that members of the executive and legislative branches need to observe the same fiduciary standards pension plan fiduciaries are required to obey.

Any new enforcement rules the Labor Department still feels are needed to curb errant plan fiduciaries should be designed to provide injured participants and beneficiaries access to remedies with a minimum of additional burden and cost for both sponsors and government.

LETTERS TO THE EDITOR

Not a small-stock index

■ In his May 27 commentary on small stocks, Kenneth L. Fisher makes a very good point that the Nasdaq Composite Index is a measure of performance of all Nasdaq stocks; and it includes many growth stocks that are not small. But some of the evidence he uses to support his case needs to be corrected.

The 10 largest Nasdaq stocks account for 15% (not 22%) of the index and the 50 largest Nasdaq stocks account for 33% (not 50%) of the index. All of these have more than \$1 billion in market value.

If you value ADRs by ADR shares outstanding, rather than market value of the underlying company, none of the four largest Nasdaq companies are Japanese ADRs as stated in the article. More than 800 Nasdaq stocks are larger than the ADRs outstanding for Tokio Marine & Fire Insurance, Nasdaq's biggest Japanese ADR.

Nevertheless, Mr. Fisher's point, that it is a mistake to use the Nasdaq composite as a small-cap measure, is a good one and needed to be made.

Gene L. Finn

Vice president and chief economist
National Association of Securities Dealers
Washington

Social investing risk/return

■ Jeffrey Teper's article on the risk/reward relationship in socially responsible investing ("The cost of social criteria," May 13) asserts the Domini Social Index "had a risk-adjusted cost of 1.1%." Mr. Teper does not indicate which risk-adjustment method he used, but I assume he means the DSI's annual rate of return, relative to its beta, was lower than the S&P 500's. This differs from our experience.

We calculated risk-adjusted returns for the DSI using the two most commonly applied methods: the Sharpe and Treynor scores. Our analysis, based on monthly return and risk-free rates provided by State

Street Bank, shows the DSI beat the S&P 500 on a risk-adjusted basis for the Dec. 1, 1985-April 30, 1991, period.

The geometric mean monthly return was 1.217% for DSI, 1.135% for S&P 500, and 0.6% for T-bills. The standard deviation of monthly returns was 5.64% for DSI, 5.26% for S&P 500, and 0.1% for T-bills. Beta (monthly returns) was 1.06% for DSI and 1% for the S&P 500.

The Sharpe score was 0.11 and for the DSI and 0.1 for the S&P 500. The Treynor scores were 0.58 and 0.53, respectively.

The discrepancy between Mr. Teper's and our findings is partly attributable to the different periods studied. Mr. Teper's study used data only up to September 1990. This underscores the importance of waiting a full market cycle before assessing the risk/reward relation of an investment approach.

Socially responsible investing, like any investment approach, entails risk. Are socially responsible investors compensated for the risks they accept? In the case of the DSI, we believe they are.

Lloyd Kurtz

Senior research analyst
Kinder, Lydenberg, Domini & Co. Inc.
Cambridge, Mass.

Responsible investing

■ Mr. Teper in his May 13 article makes excellent points when he suggests that responsible investors should be concerned about return, security risk, diversification and cost. Indeed, it's good advice for all investors. He's off base, however, when he asserts that responsible portfolios measure poorly in these categories. Specifically:

- Returns — Mr. Teper measured returns through the third quarter of 1990 and concluded measures like the Domini Social Index underperformed the S&P 500 by 110 basis points a year. Extending his analysis through the first quarter shows that DSI beat the S&P 500 by 40 basis points a year. There is no conclusive evidence either way.
- Security Risk — The implication that

responsible portfolios replace large companies with "smaller, more volatile companies" breaks down on two counts. First, responsible investing does not necessarily require investing in smaller companies (the Covenant universe is the 1,000 largest U.S. companies). Second, responsible companies are actually less volatile, because their earnings streams are less subject to the vagaries of litigation, regulatory action, labor strife, product liability, etc.

- Diversification — Here the implication is that responsible portfolios are less diversified. They can be. But proper diversification is the job of the investment manager in conjunction with the client. The Covenant data base shows it is possible to style sector-weighted responsible portfolios consistent with diversification needs.

- Transaction Cost — The article refers to the one-time cost of establishing the responsible portfolio. This is the case with any change in investment style. There is clear evidence that indicates that once established, responsible portfolios have lower turnover (lower transaction cost) than other actively managed portfolios.

As in other investment techniques like value investing, technical investing, market timing and contrarian investing, portfolio performance will vary. Just as with the other techniques, the key decision the investor must make is the selection of the proper investment adviser. Investor and adviser then work together to style a responsible portfolio with the proper return, risk, diversification and cost attributes.

Anthony J. Carfang

President
Covenant Investment Management
Chicago

CFO not so highly paid

■ The table accompanying your May 13 article on 1990 chief financial officer's salaries has an error regarding Grumman Corp's CFO, Robert G. Freese. Our 1991 proxy statement shows Mr.

Freese's total cash compensation in 1990 was \$301,400 and not the \$497,663 listed in *Pensions & Investments*.

P&I mistakenly identified Mr. Freese's "estimated annual pension" (\$196,263) as a bonus. While I doubt if Mr. Freese would reject your generous bonus, I think he'd like his pension: His retirement plans were announced in February.

Miriam L. Reid

Director-investor relations
Grumman Corp.
Bethpage, N.Y.

Leave the 'G' in GICs

■ I was a little surprised by your June 10 column on guaranteed investment contracts. Your emotional plea to take the "G" word out of GIC shows a total disregard for the following:

- Most sponsors and participants are well aware of the risks of GIC investing. They pay attention to ratings, size and general comfort with carriers prior to purchase.

- Most GICs in participant directed plans are benefit responsive, paying all liquidity provided by the plan at book value.

- The Federal Deposit Insurance Corp. is nearly broke, and the new bank bill suggests dropping FDIC coverage from bank investment contracts, yet you advise readers that a GIC without the "G" word is more comparable to a BIC, and that BICs have FDIC? Have you checked on the BIC business lately?

Book value liquidity and book value accounting have more to do with the perception of GICs than the "G" word. Take the "G" away and you'll still have the perception! What is your real gripe anyway?

I suggest that GICs will be around for a long time. You should wake up to the issues and see just what the insurance companies are now calling their government-backed separate accounts.

Mark A. Clouse

Clouse & Co. Inc.
Gastonia, N.C.

NCM Capital leads pack

Assets skyrocket more than 10,000% in 5 year-period

By Christine Philip

NCM Capital Management Group Inc., Durham, N.C., is the nation's fastest growing money manager, a *Pensions & Investments* study shows.

NCM's tax-exempt assets skyrocketed more than 10,000%

during the five years ended Jan. 1, to \$761 million from \$7 million in 1987.

Maceo K. Sloan, chief investment officer of NCM, attributed his firm's growth to its well-planned structure, solid capitalization, state-of-the-art computer back-up and his staff's hands-on investment experience.

As a minority money manager, Mr. Sloan said, he is "delighted to see that minority investment professionals are getting a chance to compete on an almost-even playing field. I anticipate future significant growth for minority managers, as long as they are given the opportunity to show the type of job they can do."

NCM Capital, currently owned by North Carolina Mutual Life Insurance Co., is being bought out by a management group led by Mr. Sloan.

An active value equity manager, the firm screens medium-capitalized stocks for low price-earnings ratios, positive earnings momentum, positive earnings surprise and quality. The firm is equally balanced between equity and fixed-income investments for clients, he said.

Mr. Sloan said he believes NCM can manage the growth while retaining its "strong commitment to client servicing, a very high level of service." A significant portion of the growth is due to additional allocations from existing clients, he said.

See Growth on page 18

Fastest growing money managers of U.S. institutional tax-exempt assets

\$1 billion to \$5 billion under management	\$ millions		Increase
	Jan. 1, 1991	Jan. 1, 1987	
First Quadrant	1,398	65	2,050.77 %
First Interstate/Wash.	3,400	546	522.71
Dean Investment Associates	2,611	439	494.76
Eagle Asset Mgmt.	2,510	451	456.54
WEDGE Capital	1,060	210	404.76

\$500 million to \$1 billion under management	\$ millions		Increase
	Jan. 1, 1991	Jan. 1, 1987	
NCM Capital Mgmt.	761	7	10,771.43 %
Morgan Stanley/Chicago Group	876	101	767.33
Franklin Asset Mgmt. Systems	650	110	490.91
Abbott Capital Mgmt.	954	215	343.72
PM Realty Advisors	528	136	288.24

Fastest growing money managers of U.S. institutional tax-exempt assets

More than \$10 billion under management	\$ millions		Increase
	Jan. 1, 1991	Jan. 1, 1987	
Equitable Real Estate	18,586	5,805	220.17
Lincoln Capital Mgmt.	16,484	5,996	174.92
Fidelity Investments	21,249	8,000	165.61
State Street Bank	57,606	23,572	144.38
Security Pacific Investment	10,634	4,611	130.02
\$5 billion to \$10 billion under management	\$ millions		Increase
	Jan. 1, 1991	Jan. 1, 1987	
Rosenberg Institutional Equity	5,513	1,037	431.63
Manufacturers Nat'l/Detroit	7,232	1,649	338.57
Morley Capital	5,233	1,300	302.54
Hartford Life	6,300	2,283	175.95
Western Asset Mgmt.	6,446	2,729	136.20

*Excludes assets assigned to other firms

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Some Plain Talk About Defined Contribution Plans

RESPONSIBILITY

Selecting a provider for your company's 401(k) plan is a complex undertaking with far-reaching and long-lasting consequences. You bear a great responsibility to choose well. So when you select a company, or review your present providers, you will want to focus on the factors that really matter—the fundamental issues.

Employees Your first responsibility is to your company's employees because it's their financial security which is at stake. Since participants make their own investment decisions, you must ensure that all—the experienced and the novice alike—are provided with adequate education about the fundamentals of long-term investing. Employees should also be given convenient and timely access to information and the ability to change their investment line-up easily and quickly when necessary.

Your responsibility doesn't end when employees' initial selections have been made. Adequate information must also be provided as they transition through an employment career and on into retirement. The company you select should always be there for them.

Performance Of course, you want good performance. But in addition, your larger responsibility is to provide a broad, well-defined selection of investment options which provide dependable results over the long term. Your investment options—from conservative to aggressive—should be managed for specific objectives with each following a tightly prescribed and understandable investment strategy.

Partnership You strive for excellence in your own company. You should expect no less a commitment from a partner. Your administrative partner should have a deep line-up of well-trained people who will be ready to serve your needs, not only in the basics of timeliness and accuracy, but in responding to special requests. Your company is continually changing. Your partner should be flexible enough to grow and change with you.

Value You are willing to pay for quality, which does not mean excessive fees, but fair remuneration for value received. There should be no hidden assessments, no charges later on when you discover that your contract fees cover only minimum service levels. You should require full disclosure. And the same recognition of value should be present in the costs incurred by your participants for investment management and fund administration.

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Albert Einstein, (1879 - 1955)

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Maceo K. Sloan says NCM can manage growth while keeping its commitment to clients.

Growth

Continued from page 17

NCM began with one client — Transit Management of Southeast Louisiana Retirement Income Plan, New Orleans — and now has 39.

The transit management fund hired NCM in 1987 for a \$7 million balanced account, which has grown to \$10 million. Mark Major, chairman of the board of trustees, said the board "knew that NCM would grow by leaps and bounds, but also felt that they could continue to provide good performance and strong client support."

He said NCM "has kept its pledge to remain an active manager, despite its growth in size... It is a firm to be reckoned with."

P&I's rankings of the fastest-growing money managers were derived from a comparison of managers' tax-exempt assets reported to P&I as of Jan. 1, 1987, with what they reported as of Jan. 1, 1991.

Managers were ranked according to the percentage change in assets in four size categories: those managing more than \$10 billion as of Jan. 1, 1991; firms managing between \$5 billion and \$10 billion; firms managing between \$1 billion and \$5 billion; and those managing between \$500 million and \$1 billion.

(Assets of firms acquired or merged during the period were combined for purposes of comparison. If an internal investment management unit was spun off and majority ownership has been maintained by the parent company, the division's 1987 assets were broken out from the parent company's. Manager-of-manager assets were excluded.)

(Chancellor Capital Management, New York, and PanAgora Asset Management, Boston, have experienced rapid growth in recent years since becoming independent from their parent companies. They, however, are among the firms not included because they weren't in existence in 1987.)

JMB Institutional Realty Corp., Chicago, was the fastest-growing manager among those with more than \$10 billion under management.

JMB's tax-exempt assets climbed more than 534%, to \$10.146 billion in 1991 from \$1.6 billion in 1987. Second was Equitable Real Estate Investment Management Inc., New York, with a 220.2% increase; Equitable Capital Management Corp., New York, 206.8%; and Lincoln Capital Management, Chicago, 174.9%.

Jerome J. Claeys III, chairman of JMB Institutional, said one of the most important reasons for the firm's fast growth was the development of a strategy that buys corporations rich in real estate assets, or buys pools of real estate assets. Its most notable deal was the purchase of Cadillac Fairview Corp. Ltd. for which approximately \$2 billion was raised.

"We would not look as good in the growth rankings if it weren't for our corporate investment strategy. We would have grown without this strategy, certainly, but not nearly as well," Mr. Claeys said.

For at least one firm — Lincoln Capital Management — the bulk of the growth is due to a new product. Lorraine Holland, assistant vice president, said Lincoln Capital experienced a "very successful introduction of our enhanced fixed-income index fund management product." That

See Growth on page 20

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Growth

Continued from page 18

strategy had one, \$600 million account in 1987, and grew to 15 clients with \$6.1 billion as of Jan. 1.

Among managers with more than \$5 billion but less than \$10 billion, SunBank Capital Management, Orlando, Fla., led the ranking, with an increase of 522.7%. SunBank's tax-exempt assets climbed to \$6.85 billion as of Jan. 1, from \$1.1 billion five years earlier. Rosenberg Institutional Equity Management, Orinda, Calif., was second, with an increase of 431.6%, and The Vanguard Group Inc., Valley Forge, Pa., was third, with an increase of 412.3% for its internally managed tax-exempt assets.

Tony Gray, president of SunBank, said its "No. 1 record of performance over the past 10 years" accounts for the growth. The firm, primarily a big-cap equity manager, closed its doors to new clients in 1989.

Rosenberg's Marlis Fritz, director of marketing and general partner, said her firm has benefited from a growing interest in "a systematic, disciplined decision-making process." The firm uses a computer-driven series of proprietary valuation models to analyze fundamental data.

First Quadrant Corp., Morristown, N.J., as first in the next size category, showing an increase of more than 1,000% — to \$1.398 billion from \$65 million.

Second was Morgan Grenfell Capital Management Inc., New York, with a 772.1% increase, followed by First Interstate Bank of Washington, Seattle, 522.7%.

John Dorian, managing director of First Quadrant, attributed the growth to "what we consider a leading edge product" in the firm's domestic and global tactical asset allocation quantitative models. Rob Arnott, chief investment officer, is "the leading designer of asset allocation models,"

Mr. Dorian said, and the firm is a "pure quant shop."

"Our greatest growth over the past four years has been in domestic tactical asset allocation," he said. He added First Quadrant has seen global tactical asset allocation increase during the past year.

NCM led the pack of managers with up to \$1 billion, followed by Schroder Real Estate Associates, New York, with an increase of 900%, and Morgan Stanley Asset Management/The Chicago Group, Chicago, 767.3%.

(Some firms underwent significant reorganization during the five-year period and were unable to provide figures for comparison. They include Mitchell Hutchins, New York; Manufacturers Hanover Trust Co. — Investment Management Group, New York; C&S/Sovran Trust Co., Atlanta; and Shearson Lehman Advisors,

New York.)

The top 10 managers in each category represent a cross-section of asset classes and investment styles. Three insurance company subsidiaries and three banks dominate the list of those with more than \$10 billion, while independent firms show up in the smaller asset categories.

Unlike NCM, some of the leaders in asset growth have closed their doors to new business. Two are small-cap equity managers — Morgan Grenfell Capital Management and Ariel Capital Management Inc. SunBank Capital also is closed to new large-cap equity investments.

Morgan Grenfell, for example, stopped accepting new small-cap equity business in the first quarter of 1989, said Jeremy Lodwick, director.

Ariel Capital Management Inc.,

Chicago, will take a new client only if an existing one leaves. Ariel was ranked fourth on the list of those with more than \$500 million under management. "It has been hard, very hard to turn away a lot of new business," said John Rogers, Ariel's president.

The impact of indexed assets appears in the ranking by overall dollar growth. Mike Beasley, senior vice president in the Atlanta office Callan Associates Inc., said, "The top three (Bankers Trust Co., New York; State Street Bank and Trust Co., Boston; and Wells Fargo Nikko Investment Advisors, San Francisco) experienced strong growth in indexed assets."

Mr. Beasley also noted the success of minority-owned firms like Ariel and NCM, in light of the recent trend toward hiring minority- and woman-owned firms.

"Multiple-product firms are be-

ginning to see the payoff," noted David O'Donovan, senior vice president in SEI Corp.'s Chicago office. A number of firms in the top two categories offer a wide selection of core and specialty investment products. He also noted several specialty firms are broadening their asset classes. "Specialty boutiques are moving towards a multiproduct strategy in order to better withstand difficult periods," he said.

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Largest dollar gain overall*

(Jan. 1, 1987 to Jan. 1, 1991)

	\$ millions
State Street Bank	34,034
Northern Trust	17,148
Mellon Capital	14,195
Equitable Real Estate	12,781
Metropolitan Life	11,865

Largest percentage gain overall*

(Jan. 1, 1987 to Jan. 1, 1991)

	Increase
NCM Capital	10,771.43%
Schroder Real Estate	900.00
Morgan Stanley/Chicago Group	767.33
JMB Institutional	534.13
First Interstate/Wash.	522.71

*U.S. institutional tax-exempt assets